

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

FY 1996 DOD SUPERFUND FINANCIAL TRANSACTIONS

Report No. 97-212

September 4, 1997

Department of Defense

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Acronyms

AAA	Army Audit Agency
EPA	Environmental Protection Agency
M&S	Management and Support



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September 4, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on FY 1996 DoD Superfund Financial Transactions
(Report No. 97-212)

We are providing this audit report for information and use. We performed this audit to comply with the Superfund Amendments and Reauthorization Act of 1986. The Act requires an annual audit of Superfund financial transactions. Because this report contains no findings or recommendations, no written comments were required, and none were received.

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Mr. James L. Kornides, Audit Program Director, or Mr. John K. Issel, Audit Project Manager, at (614) 751-1400 or e-mail JKornides@DODIG.OSD.MIL or JIssel@DODIG.OSD.MIL. See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 97-212
(Project No. 7FJ-9003)

September 4, 1997

FY 1996 DoD Superfund Financial Transactions

Executive Summary

Introduction. We performed this audit to comply with the Superfund Amendments and Reauthorization Act of 1986. The Act requires an annual audit of Superfund financial transactions. The Environmental Protection Agency manages the Superfund, which is a trust fund that Congress established to respond to hazardous waste emergencies and fund the cleanup of hazardous waste. The Superfund is used to clean up hazardous waste when the responsible party either cannot be identified or will not perform the cleanup work and when a State will not assume responsibility. The U.S. Army Corps of Engineers (the Corps) manages the design and construction of cleanup sites paid for by the Environmental Protection Agency with money from the Superfund. The Environmental Protection Agency issues program authority to the Corps through interagency agreements. During FY 1996, the Corps recorded obligations totaling about \$267 million and disbursements against FY 1996 and prior-year obligations totaling about \$313.7 million for Superfund projects.

Audit Objectives. The primary audit objective was to determine whether the U.S. Army Corps of Engineers properly administered its portion of the Superfund. Specifically, we determined whether the Corps supported and accurately recorded obligation and disbursement transactions charged to Superfund projects during FY 1996. We also assessed the Corps' management control program as it relates to Superfund transactions.

Audit Results. We judgmentally selected two Corps offices for audit. Those offices properly supported and accurately recorded the judgmentally selected \$42.2 million out of \$229.3 million in FY 1996 Superfund obligation and disbursement transactions. In FY 1996, the Corps was implementing a new accounting system, the Corps Financial Management System; therefore, we limited our review to two sites, the New England Division and the New Orleans District of the Lower Mississippi Valley Division.

At the Corps' request, we also evaluated the policies and procedures used by the Corps divisions to bill the Environmental Protection Agency for management and support costs. At the two divisions reviewed, the policies and procedures were adequate. Specifically, all but one of the \$41,000 in management and support cost transactions reviewed at the New England and Lower Mississippi Valley Divisions were accurate. The exception was a \$221 travel transaction that was incorrectly charged to the Superfund at the Lower Mississippi Valley Division. The Lower Mississippi Valley Division acted immediately to correct this error.

We also evaluated the policies and procedures used to calculate overhead (indirect) cost rates charged to Superfund projects. For the offices reviewed, we determined that the charges were appropriate.

Management Comments. We provided a draft of this report to management on June 4, 1997. Because this audit report contains no recommendations, management comments were not required, and none were received. Therefore, we are publishing this report in final form.

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Part I - Audit Results

Audit Background

Audit Requirements. We performed this audit to comply with the Superfund Amendments and Reauthorization Act of 1986. The Act requires an annual audit of Superfund financial transactions.

Origin of the Superfund. The Superfund is a trust fund that Congress established to respond to hazardous waste emergencies and fund the cleanup of hazardous waste. The Government uses the Superfund to clean up hazardous waste when the responsible party either cannot be identified or will not perform the cleanup work and when a State will not assume responsibility. The Environmental Protection Agency (EPA), manager of the Superfund, issues program authority to the U.S. Army Corps of Engineers (the Corps) to carry out Superfund work through interagency agreements.

Methods Used to Issue Program Authority. Before October 1991, the EPA provided program authority on a reimbursement basis and created an unobligated balance of funds that was available for the Corps to use. This method required the Corps to use its appropriations to pay for the incurred costs while performing Superfund-related cleanup and required the EPA to reimburse the Corps from the unobligated Superfund amounts.

Interagency agreements between the EPA and the Corps after October 1991 called for a direct-cite payment method. Using this method, the Corps incurred obligations against available funds (an EPA fund cite) when it awarded and administered contracts.

Corps' Responsibilities. The Corps was responsible for managing the design and construction of certain national priority list sites designated by the EPA. The EPA provided financing from the Superfund Trust Account. The Corps managed cleanup work through its divisions and districts. During FY 1996, the Corps recorded obligations for Superfund projects totaling about \$267 million and disbursements totaling about \$313.7 million against FY 1996 and prior-year obligations.

Audit Objectives

The primary audit objective was to determine whether the Corps properly administered its portion of the Superfund. Specifically, we determined whether the Corps supported and accurately recorded obligation and disbursement transactions charged to Superfund projects during FY 1996. Additionally, at the Corps' request, we evaluated the policies and procedures used to bill the EPA for

management and support costs. We also evaluated the policies and procedures used to calculate overhead (indirect) costs charged to Superfund projects. We assessed the Corps' management control program as it relates to Superfund transactions. See Appendix A for a discussion of the audit scope and methodology and management controls. See Appendix B for a summary of prior audit coverage related to the audit objective.

Superfund Financial Transactions

The two Corps offices judgmentally selected for audit properly supported and accurately recorded the judgmentally selected \$42.2 million out of \$229.3 million in FY 1996 obligation and disbursement transactions for the Superfund. The New England Division and the New Orleans District of the Lower Mississippi Valley Division established adequate management controls over the obligation and disbursement of funds. The New England and Lower Mississippi Valley Divisions had adequate policies and procedures for billing the EPA for management and support (M&S) costs; those policies and procedures were evaluated at the Corps' request. Additionally, the policies and procedures used to calculate overhead (indirect) cost rates charged to Superfund projects were appropriate.

Criteria for Superfund Transactions

The criteria for the Superfund are in the EPA guidance for Federal agencies, "Superfund Financial Management and Recording," January 1989. This guidance requires authorization and documentation for all financial transactions (costs) charged to Superfund projects so that the EPA can sustain cost claims in court while attempting to recover funds from responsible parties. Specifically, this guidance requires each cleanup site to retain documents. These documents should include time and attendance records, pay estimates, contractor invoices with project officer approval, proof of payment, project progress reports, interagency agreements, and worksheets showing calculations of indirect costs.

Administration of the Superfund

The two judgmentally selected Corps offices properly administered FY 1996 Superfund monies for the judgmentally selected transactions. We reviewed Superfund financial transactions, M&S costs, and the Corps' indirect costs charged to the Superfund and found no material errors.

Superfund Financial Transactions. We reviewed \$42.2 million of the \$229.3 million in judgmentally selected Superfund obligation and disbursement transactions at the New Orleans District and New England Division offices of the Corps. Obligations were supported by contracts, contract modifications, and interagency or interdistrict agreements. Disbursements were supported by contracts, contract invoices, receiving reports, and other appropriate documents. The documents supporting the transactions were properly authorized and recorded. For the judgmentally selected transactions reviewed at the two offices, the audit disclosed no material errors. Specifically, the offices were

able to provide accurate and reliable supporting documentation for all but two of the \$42.2 million in transactions examined. The two unsupported transactions represented \$47 in credit adjustments to the Superfund.

Management and Support Costs. The process, policies, and procedures used at the two Corps divisions to establish and bill EPA for M&S costs were adequate. M&S costs are incurred by Corps personnel at headquarters, divisions, and districts for non-site-specific expenses associated with Superfund program management. Those costs include labor, travel, supplies, and overhead, as well as expenses for developing policies, procedures, and quality assurance controls.

All but one of the \$16,759 in M&S transactions at the New England Division and \$24,156 in M&S transactions at the Lower Mississippi Valley Division were accurate. The one transaction in error was a \$221 travel transaction incorrectly charged to the Superfund by the Lower Mississippi Valley Division. Lower Mississippi Valley Division management acted immediately to correct this error.

Corps Indirect Cost. We reviewed the process and procedures used by the Corps to calculate overhead and other indirect cost rates and the allocation of those costs to Superfund projects. Congressional funding of the Corps dictates that it operate under a total cost distribution concept. Under this concept, all costs (including general and administrative expenses) associated with the day-to-day operation of Corps offices must be equitably distributed, making the offices self-sustaining.

The Corps requires that all direct costs be identified and charged to the benefiting project whenever practical. Costs that cannot be readily matched to a specific project, such as general or overhead costs, are distributed based on a calculated overhead rate that is applied according to the direct labor charges allocated to specific sites or projects.

At the New Orleans District and the New England Division offices, overhead costs for Superfund projects were accurately and equitably distributed. At those sites, the amounts included in the calculation of each office's overhead rate and the allocation of the costs to its managed Superfund projects were reviewed. The review showed that the amounts included in overhead rates and those costs charged to Superfund projects were in accordance with Engineer Regulation 37-2-10, "Accounting and Reporting Civil Works Activities," May 1980, and resulted in an equitable distribution of indirect costs.

Summary

Based on the limited review of selected transactions allocated to Superfund projects at the two selected Corps sites, the audit determined that EPA, DoD, and Corps policies, procedures, and controls established for the financial management of Superfund obligations and disbursements were effective in that no material errors were disclosed for the transactions tested. Also, tests at the Corps offices showed that they had equitably distributed M&S and overhead costs to applicable Superfund projects.

Superfund Financial Transactions

During FY 1996, the Corps was implementing a new accounting system, the Corps of Engineers Financial Management System. That system is expected to enhance the tracking of funds and reporting of expenditures. Inspector General, DoD, Report No. 96-227, "FY 1995 DoD Superfund Financial Transactions," September 19, 1996, stated that the new system was expected to correct deficiencies found during the audit. The system should be fully operational in FY 1998. We did not examine the operation of the system as it related to Superfund transactions in FY 1996 because of its limited deployment. We plan to increase testing in that area in FY 1998.

Management Comments

We provided a draft of this report to management on June 4, 1997. Because the report contains no findings or recommendations, comments were not required, and none were received. Therefore, we are publishing this report in final form.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed EPA, DoD, and Corps policies, procedures, and controls for financial management of Superfund obligations and disbursements. During FY 1996, the Corps recorded obligations for Superfund projects totaling about \$267 million and disbursements totaling about \$313.7 million against FY 1996 and prior-year obligations.

We reviewed recorded obligation and disbursement transactions charged to both reimbursable and direct-cite Superfund projects during FY 1996 at two Corps locations. Specifically, at the New Orleans District and New England Division offices, we judgmentally selected \$28.8 million in obligation transactions and \$13.4 million in disbursement transactions for review. These two locations were selected for review because they represented \$229.3 million, or 39.5 percent, of the total Corps obligations and disbursements recorded during FY 1996.

Also, at the request of senior Corps management, we evaluated the appropriateness of \$41,000 in M&S costs charged to the Superfund during FY 1996 at the New England and Lower Mississippi Valley Division offices. Additionally, we reviewed the policies and procedures used by the New Orleans District and the New England Division offices to calculate overhead and other indirect cost rates and allocate those costs to Superfund projects.

Use of Computer-Processed Data and Statistical Sampling Procedures. We relied on computer-processed data from the Corps to select the offices to be visited. We also relied on computer-processed data from the Corps locations to determine the audit sample selection. Although we did not make a formal reliability assessment of the computer-processed data, the source documentation generally agreed with the computer-processed data used for our sample selection. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives. Statistical sampling procedures were not used for this audit.

Audit Period and Standards. This financial-related audit was performed from September 1996 to April 1997 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Our review included tests of management controls that we considered necessary.

Contacts During the Audit. We visited or contacted individuals or organizations within the DoD and the EPA. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls. DoD Directive 5010.38 has been revised as "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the directive.

Scope of Review of the Management Control Program. We reviewed the adequacy of the Corps' management controls over the accounting and recording of Superfund financial transactions. Specifically, we reviewed the management controls established to ensure that Superfund obligation and disbursement transactions were reliable and completely recorded and that proper documentation was maintained to support the recorded transactions.

Adequacy of Management Controls. The Corps had established management controls over the obligation and disbursement of funds in accordance with applicable laws and regulations. Based on our review of \$42.2 million of obligations, disbursements, and M&S costs charged by three major Corps offices to the Superfund projects during FY 1996, the accounting and administration control system established by the Corps for the division and district offices reviewed provided reasonable assurance that:

- o obligations and disbursements complied with applicable laws;
- o obligations and disbursements were properly recorded; and
- o program functions were efficiently and effectively carried out in accordance with management policy.

Management controls at the three locations (the New England and Lower Mississippi Valley Division offices and the New Orleans District office of the Lower Mississippi Valley Division) were adequate in that we identified no material management control weaknesses.

Appendix B. Summary of Prior Coverage

Inspector General, DoD, Report No. 96-227, "FY 1995 DoD Superfund Financial Transactions," September 19, 1996. This report stated that the Corps of Engineers financial system did not provide unique transaction references, thus prohibiting the matching of transactions to their source records with reasonable assurance. The report also stated that the Corps failed to properly support a statistically projected \$248.5 million out of \$575.5 million in obligation and disbursement transactions charged to Superfund projects during FY 1995. However, because the Corps of Engineers Financial Management System was expected to correct most problems, the report made no recommendations.

Army Audit Agency (AAA) Report No. NR 95-413, "FY 94 Superfund Financial Transactions," August 31, 1995. This report stated that the Corps properly supported and accurately recorded FY 1994 Superfund obligation and disbursement transactions. However, two of the four districts reviewed did not record some obligations promptly. The Army Audit Agency found that the Corps submitted its Superfund minority contractors utilization report promptly. The report made no recommendations.

AAA Report No. NR 94-422, "FY 93 Superfund Financial Transactions," September 23, 1994. This report stated that the Corps properly supported and accurately recorded FY 1993 Superfund obligation and disbursement transactions. The AAA also found that the Corps submitted its Superfund minority contractors utilization report promptly and that the report was properly supported by feeder reports provided by the districts and divisions. The feeder reports, however, did not include all Superfund obligations. The AAA recommended that additional actions be taken to ensure that the minority contractors utilization reports are complete and accurate. The Corps agreed with the recommendation, stating that it would forward updated guidance to district commanders.

AAA Report No. NR 93-423, "FY 92 Superfund Financial Transactions," September 3, 1993. This report stated that the Corps properly supported and accurately recorded FY 1992 Superfund obligation and disbursement transactions. The AAA also reported that the Corps submitted its Superfund minority contractors utilization report promptly, and that the report was properly supported by feeder reports from the districts and divisions.

Appendix C. Report Distribution

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Committee on Government Reform and Oversight
House Committee on National Security

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